Army Base Operations and OMB A-76
Save Now – Play Later ?

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ABSTRACT

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Army Base Operations (BASOPS) are burdened by an aging infrastructure and smaller workforces. Increases in operations tempo and less funding make installation management more challenging. To provide guidance in execution of the BASOPS mission, the Assistant Chief of Staff for Installation Management (ACSIM) issued Army Installation Vision 2010. The vision complements Army vision 2010 by "nesting" five tenets of BASOPS within the Army core competencies. The five tenets are: maintain readiness; provide power projection; maintain quality of life, sustain the environment; and operate efficiently. However, recent government cost savings initiatives disrupt the five tenets and threaten Army readiness.

The Office of Management and Budget A-76 circular is a 1950's program recommending outsourcing (contracting) as a means of initiating cost savings in government. First rejected by DoD, A-76 has been resurrected in the Administration's re-inventing government initiative and embraced by in the 1996 Defense Science Board, 1997 Quadrennial Defense Review, and Defense Reform Initiative. Final codification of OMB A-76 came in the form of the Federal Activities Inventory Act of 1998 which mandates contract studies of all commercial activities with the federal government, including DoD.

The Army has identified A-76 as a cost savings weapon with BASOPS as the intended target. Between 1999 and 2003, the Army intends to save $400 million from BASOPS to apply to other Army programs. Already operating at only 69% of total financial requirements, BASOPS is an economy of force mission in the cost war. BASOPS cannot fully sustain the five tenets of Installation Vision 2010 or the Army's core competencies under the threat of A-76 or Activity Based Costing (ABC)—the Army's campaign plan to mitigate the effects of A-76.

Analysis of A-76, and ABC reveals these methods as outdated accounting methods from the 1950's and 1960's. Long recognized by the private sector as "remote control" management, A-76 and ABC techniques were replaced by industry in favor of long term productivity, customer service, and core values. The Army is using outdated methods without adequate planning to secure immediate cost savings. Continuing this policy will mortgage the future of BASOPS and the Army for the long term.

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CONTENTS

ABBREVIATIONS

ABC .....Activity Based Costing

ACSIM.....Assistant Chief Of Staff for Installation Management

AMC.....Army Materiel Command

AG.....Adjutant General

BASOPS.....Base Operations

BoB.....Bureau of Budget

BRAC.....Base Re-Alignment and Closing

CDC.....Child Development Center

DEH.....Directorate of Engineering and Housing

DoD.....Department of Defense

DOIM.....Directorate of Information Management

DPCA.....Directorate of Personnel and Community Affairs

DPTM.....Directorate of Property and Training Management

DRI.....Defense Reform Initiative

DSB.....Defense Science Board

FAIR .....Federal Activities Inventory Reform Act

FORSCOM.....Forces Command

FY.....Fiscal Year

HASC.....House Armed Services Committee

MDW.....Military District of Washington

MEDCOM.....U.S. Army Medical Command

MEO.....Most Efficient Organization

OMB.....Office of Management and Budget

POM.....Program Operating Memorandum

QDR.....Quadrennial Defense Review

TRADOC.....Training and Doctrine Command

TQM.....Total Quality Management

USACE.....U.S. Army Corps of Engineers

USMA.....U.S. Military Academy

FIGURES

CHAPTER 1

INTRODUCTION

Old infrastructure, fewer services, and reduced workforces are familiar challenges in Base Operations (BASOPS) management. An increase in operations tempo and less funding make BASOPS management even more interesting. The publication of Installation Vision 2010 provides guidance and purpose for BASOPS management. Contained in Installation Vision 2010 are five tenets: maintain readiness; provide power projection; maintain quality of life; sustain the environment; and operate efficiently. These tenets link readiness to where and how soldiers train, maintain and live.[1] The latest imposition of budget policies, legislation, and Army budget limits make it difficult to implement the tenets of Installation Vision 2010.

Slashing BASOPS budgets is an "economy of force" measure to provide funding for modernization programs elsewhere in the Army. While implementing the tenets of Installation Vision 2010, BASOPS management must plan appropriately to conserve resources. Army BASOPS uses the fiscal tools found in Office of Management and Budget Circular A-76 (A-76)[2] and the Army plan for implementing Activity Based Costing (ABC)[3]. Both methods seek to implement the Clinton Administration's "Re-inventing Government" initiative in reducing government spending. As fiscal tools, A-76 and ABC focus on cost savings rather than installation readiness. The "cost cutting" nature of A-76 and ABC fall short of adequate future planning for BASOPS needs.

The 1997 Quadrennial Defense Review (QDR) targeted BASOPS for Department of Defense streamlining.[4] Subsequently, the fiscal year 1999-2003 Army Program Operating Memorandum (POM) set cost savings targets of $800 million in BASOPS[5]

functions. About half the savings ($400 million) will come through implementation of "strategic sourcing" methods in A-76 studies by 2003. Strategic sourcing combines re-engineering organizations and "competitive sourcing" contracting. Competitive sourcing is the transfer of a function performed by the Army to an outside provider.[6] Army BASOPS habitually operates at 70% of total fiscal requirements. While A-76 and ABC methods make up the 30% shortfall in BASOPS fiscal requirements, they "mortgage" future readiness programs. Today's $400 million in savings are affecting future deployment capability, support functions, recruiting and retention.

The A-76 and ABC methods attain cost savings by reducing mission labor to the minimum requirements for peacetime operations. Using A-76 and ABC methods without planning for future readiness threatens the Army's ability to "surge" during contingencies. Application of A-76 and ABC cost cutting methods degrade infrastructure and support function future readiness. Army acceptance of A-76 and ABC as opportunities to cut costs furthers a perception that BASOPS is a "cash cow" rather than an important part of readiness. As the Army transforms to a lighter, more relevant combat force, the underpinning BASOPS functions seem irrelevant to modernization efforts. To reverse the downward spiral in BASOPS inflicted by the effects of A-76 and ABC requires increased future spending.

Reversing the downward trend requires detailed planning based on the tenets of Installation Vision 2010. Short range cost savings *and* preserving long term BASOPS readiness can co-exist if A-76 and ABC cost accounting methods consider planning for future missions. However, A-76 and ABC rely heavily on accounting methods developed from traditional profit based accounting. Commercial business largely abandoned this

type of accounting management in favor of long term planning. The commercial business industry found short term cost savings no substitute for adequate long range vision and survival. The Army is adopting these cost-cutting methods while ignoring the experience of the commercial sector. While recognizing a need for maintaining readiness and quality of life programs, the Fiscal Year 2001 budget pits modernization directly against quality of life improvements:

> The Fiscal Year 2001 budget has been constructed on two fundamental tenets. The first is to maintain the momentum the Army has recently achieved in protecting critical gains in readiness, quality of life and modernization, and continue to provide combat ready forces to support National Security and National Military Strategies... The second tenet is one of change. This budget begins the process of transforming the Army into a force that is strategically responsive and dominant at every point on the spectrum of operations.[7]

To provide for transformation, the Army uses labor cutting as a tool for fiscal savings. "Under the guidance outlined in Office of Manpower and Budget Circular A-76, the Army began in FY 99 cost comparison studies that, when completed in FY 05 will have reviewed in-house functions that are currently performed by 73,000 government employed personnel, both military and civilian. Resultant savings from these reviews have been and will be reprogrammed into our force modernization accounts."[8] Clearly, cuts in BASOPS labor will pay for transformation.

The intent of A-76 is to replace in-house labor with contract labor. Short-term savings in labor and management are possible using A-76. However, A-76 methods are ill-suited tools for managing future readiness. While there is no difficulty realizing $800 million in A-76 cost savings, the short-term nature of contracting BASOPS functions may have significant impact on readiness and out-year funding.

CHAPTER 2

BACKGROUND

The five tenets of Installation Vision 2010 frame the Army's requirement to house, generate, maintain and project power from a network of bases. Infrastructure is one cornerstone of BASOPS. Joint Publication 1-02 defines infrastructure as "...applicable to all fixed and permanent installations, fabrications, or facilities for the support and control of military forces."[9] The BASOPS network of installations is an essential element of the conduct of national strategy and plans for worldwide military operations. This relationship is a critical concept to operations planners:

> Planners in particular are concerned with the condition the word [infrastructure] describes, that is, the presence or absence of certain facilities in an area. Where these installations exist, they make sustained ground operations immediately feasible. Where they are non-existent, they must be established before modern protracted warfare can occur. Obviously, all professional soldiers know the importance of infrastructure. What they may not fully appreciate however, is the availability of infrastructure cannot be taken for granted, especially in an age when short-notice expeditionary interventions anywhere on the globe may be contemplated by policymakers.[10]

The Army practice of using BASOPS in an economy of force mission is acceptable as long as proper future planning takes place.

Sir Julian Corbett's concept of a "fleet in being" is analogous to Army BASOPS. In naval strategy, Corbett describes a "fleet in being" as a dormant naval force that can be activated in contingencies. As Corbett explains, the technological nature of a fleet needs continuous upkeep and conditioning in time of peace to remain in an "active and vigorous" state.[11] Provision for maintaining military readiness is set in Article 1, section 8 of the Constitution: "...Congress shall have Power...To raise and support Armies, but

no Appropriation of Money to that use shall be for a longer Term than two years; To provide and maintain a Navy..."[12]. Like navies, Army installations have value if they are kept "active and vigorous" in supporting combat forces. If installations fall into disrepair or support functions are impaired, sustainment of the combat force is also impaired. A-76 and ABC accounting methods applied without understanding the purpose of BASOPS threatens the Army ability to become instantly "active and vigorous."

The Army's BASOPS problems began with actions taken in 1939. The Presidential Emergency Proclamation of 1939 and subsequent congressional acts authorized construction of "temporary and permanent" facilities for FY 1940. The temporary infrastructure of 1940 remains today, well beyond the planned service life. Between 1941 and 1943, Army manpower increased from 1.5 million soldiers to 7 million soldiers. Expansion required reception centers, replacement training centers, schools, and bases of all types[13]. Costs of maintaining this older infrastructure have increased with age.

Beginning in 1950, social programs supporting retention increased. Since most recruits were single during the WW II mobilization era, quality of life programs were unnecessary. Technological advancements during the Cold War placed increasing emphasis on retention of trained personnel. Institutionalization of quality of life programs enhanced retention of technologically skilled personnel. As the Cold War waned, the Army's large "fleet" of old facilities, and quality of life programs aimed at retention became financial liabilities. The Base Re-alignment and Closing (BRAC) initiatives of the early 1990's allowed the Army to divest many installations. However,

as the number of bases dwindled, the Army's modernization plans for the 1990's became the new threat to BASOPS financing.

The rapid collapse of the Warsaw Pact was a turning point for Army BASOPS. The uncertain strategic environment of the early 1990's meant continuing a reliance on strong military capabilities. The unofficial motto of the early 1990's was "No more Task Force Smiths" (referencing the unprepared Army unit crushed early in the Korean War). This motto signaled the Army's intention to maintain the readiness of combat forces at any expense. The insistence on combat readiness in an era of fiscal reductions meant borrowing money from other programs, including BASOPS. Aging installations and quality of life programs of the 50's and 60's became targets for new cost savings.[14]

Paying for combat readiness at the expense of BASOPS produces unplanned problems. Using the Army's own Total Army Analysis for 2007 (TAA 2007), Congressman Ike Skelton (D, Missouri) explained his concern for the Army's ability to support readiness in terms of manpower and operational tempo. Since 1988, there has been a 44% decrease in Army manpower [15]. Nevertheless, end strength and funding of the combat forces remain higher than supporting functions. This causes BASOPS commanders to seek alternative methods to finance Army installations. Competition between combat force readiness and BASOPS funding affects upkeep of facilities and quality of life programs in a continuing downward spiral of service quality. Administration programs reducing the size of government also affect BASOPS funding. The Army has thinly disguised the Re-inventing Government initiative to extract BASOPS cost savings to pay for modernization.

RE-INVENTING BASOPS

In 1955, the U.S. Bureau of Budget (BoB) published the A-76 bulletin establishing federal policy for obtaining goods and services from the private sector. In 1966, the Office of Management and Budget (OMB), successor to BoB, re-issued circular A-76. The emphasis of the new A-76 circular was on the use of contractors for increasing cost savings.

Execution of the 1966 A-76 met many roadblocks, including congressional resistance. Therefore, provisions of the 1966 A-76 circular were ineffective. The National Defense Authorization Act for Fiscal Year 1988-89 (NDAA 89) gave installation commanders the authority to choose between contracting commercial activities or retaining government labor. Title 10, USC 2468 codified the NDAA in 1989. Subsequently, the FY 1991 Department of Defense Appropriations Act prohibited DoD funding of A-76 contracting studies. The National Defense Authorization Acts for FY 93 and FY 94 also prohibited DoD organizations from entering in contracts stemming from OMB A-76 cost studies[16].

From 1991-1994, most BASOPS commanders chose not to exercise options to use contracting as a means to save BASOPS funds. Disrupting the federal workforce, the cost of conducting A-76 studies, and loss of labor control were reasons cited for not adopting A-76 [17]. The Military Appropriation Acts of '93 and '94 continued the '91 prohibition of hiring contractors resulting from A-76 studies. The Clinton Administration's introduction of "Re-inventing Government" initiatives in the 1993 National Performance Review set the stage for adopting OMB A-76 programs in DoD.

As title 10 USC 2468 expired in 1995, the 1996 Defense Science Board investigation of "outsourcing" postulated a savings of 20-40% might be realized by outsourcing DoD *support* activities. The DSB report influenced the 1997 QDR, recommending maintenance of combat readiness at the expense of cutting support functions. The resulting Defense Reform Initiative (DRI) proposed outsourcing as a method of streamlining government *and* cutting costs.

With the expiration of 10 USC 2468 and the '96 DSB, '97 QDR and the DRI reports, the stage was set for initiating A-76 and Activity Based Costing in Army BASOPS. The Federal Activities Inventory Reform Act (FAIR) of 1998 formally moved contracting of BASOPS functions from suggestion to mandatory requirement. "In the process of governing, the Government should not compete with its citizens. The competitive enterprise system, characterized by individual freedom and initiative, is the primary source of national economic growth. In recognition of this principle, it has been and continues to be the general policy of the Government to rely on commercial sources to supply the products and services of Government needs."[18] Thus the '98 FAIR Act and the '97 QDR mandate outsourcing studies in BASOPS. The 1997 Army Program Objective Memorandum (POM) input further requires cost savings of $400 million by FY 2003:

> Two years ago, the FY 99-03 POM provided savings targets to be met exclusively through Competitive Sourcing (A-76 cost competition studies). Last year, the Congress passed and the President signed the Federal Activities Inventory Reform (FAIR) Act, requiring each Federal agency to publish an inventory of it's commercial activities and, within a reasonable time, review those activities to consider competing them with the private sector." Currently, the Army has announced A-76 studies that, when completed, should meet about half of the QDR goal of annual savings of over $800M [$400 million]. These announced studies involve about one quarter of the manpower reported as commercial activities under FAIR.[19]

The first step in achieving a one-quarter reduction in labor is to conduct detailed surveys and cost analysis of BASOPS functions. A-76 studies typically follow the pattern of two accepted accounting methods— "top-down" and "bottom-up" cost accounting.

ACCOUNTING BY REMOTE CONTROL

Traditional accounting since the 1850's figures the cost of labor and materials against the margin of profit. Management then directs actions to increase profit. This is known as "top-down" accounting management. The Federal Government uses A-76 as a "top down" cost management tool to control operations costs. However, dictating "top down" cost savings fails to provide for mission needs or customer satisfaction. In contrast, "bottom-up" accounting uses detailed analysis of costs of labor, benefit programs, various external costs such as electrical power, etc., to figure production costs against profit earnings.

Using top-down or bottom up accounting allows management to make decisions about profitability, but not efficiency. Businesses use top-down or bottom-up methods to manage by "remote control":

> In effect, management accounting systems encourage a form of "management by remote control." Managers assume that they control operations with information about the accounting results of operations—like a driver using the rear view mirror to drive a car or a tennis player watching the scoreboard to play tennis. Everyone knows that focusing on the mirror or the scoreboard leads to disaster on the highway or the tennis court. However, few people seem to reach the same conclusion about using accounting information to control business operations.[20]

Similar in form to bottom up accounting, the Activity Based Costing (ABC) method considers the total cost of the activity providing a service.

In implementing A-76, the Army uses ABC as the method of choice for cost accounting. General Electric originated ABC in the 1960's[21] to refine the traditional top down method into an accurate means of predicting cost and profit margins:

> Activities, decisions or policies in one department often generate costs in other parts of an organization. For example, a customer order generates costs across several functions in the organization: in the sales area, the costs to acquire the order; in the operations area, the cost to check stock availability, pick up and deliver the order; in the finance area, the cost to invoice, record and collect payment. Traditional cost analysis [top down methods] does not sufficiently relate costs to their causes or generators across departmental boundaries. The technique of cross-functional cost analysis overcomes this problem. For example, the total cost in many departments is affected by the number of customer orders processed. Thus, the number of orders is a cost generator. Costs can be controlled by controlling the volume of cost generators, such as the number of orders, rather than by trying to control the cost in each department affected.
>
> The cross-functional technique is applied in two phases. In the first phase, each major business activity is defined. Activities are discrete actions performed by the various departments... In the second phase of cross-functional cost analysis the generators for the costs of each of the business activities are identified.[22]

In BASOPS applications, Activity Based Costing forms a picture of cost efficiency of an organization *at a specific point in time*. The problem with these accounting methods is they fail to account for future requirements. While Army tactical leaders contemplate lighter, more deployable combat forces for the future, Army BASOPS leaders focus on attaining cost savings. Cost savings and combat readiness are two diametrically opposing concepts.

IMPORTANCE OF BASOPS TO ARMY READINESS

Installation Vision 2010 defines BASOPS missions: maintaining readiness; providing power projection; maintaining quality of life; sustaining the environment; and operating efficiently. These missions contribute directly to the readiness of the Army. What Installation Vision 2010 does not address is how the Army plans to execute these

tenets while gaining $400 million in cost savings for modernization. The Army's historical focus is on acquisition and combat readiness. However, the importance of BASOPS in generating and sustaining combat power cannot be overlooked.

The links between BASOPS and quality of life, retention and recruitment are clear. General Shinseki emphasized this point in his FY 2001 Budget and Posture statement to the Senate Armed Services Committee (HASC):

> The FY 01 budget maintains historic funding levels for base operations support services. Our soldiers and their families continue to affirm the importance of this course of action. Frequent deployments and training exercises mandate that we provide the best services to sustain morale. Army installations continue to seek new efficiencies through A-76 studies, outsourcing, and adopting most efficient organization practices. Critical to maintaining high quality of life in the Army are manning the force through recruiting and retention and adequate health care. We especially appreciate the office of the Secretaries of Defense and Congress' efforts to zero the Basic Allowance for housing differential, improve health care, and improve benefits.[23]

General Shinseki also points out two important principles in Army BASOPS: firstly, soldiers and their family members must have access to basic living arrangements; and secondly, frequent deployments require the best support services to maintain morale. In contrast, the following statement also points out the Army's position on BASOPS funding:

> The Army is maintaining its base operations support at minimum essential levels this year. However, Real Property Maintenance (RPM) funding for the active Army is only 69 percent of known requirements and our aging infrastructure continues to deteriorate. The FY 01 budget assumes some risk, yet sustains the real property inventory. We continue to reduce excess infrastructure by using RPM funds to resource the Facilities Reduction program, while focusing Military Construction investments on specific priorities such as barracks and strategic mobility projects. [24]

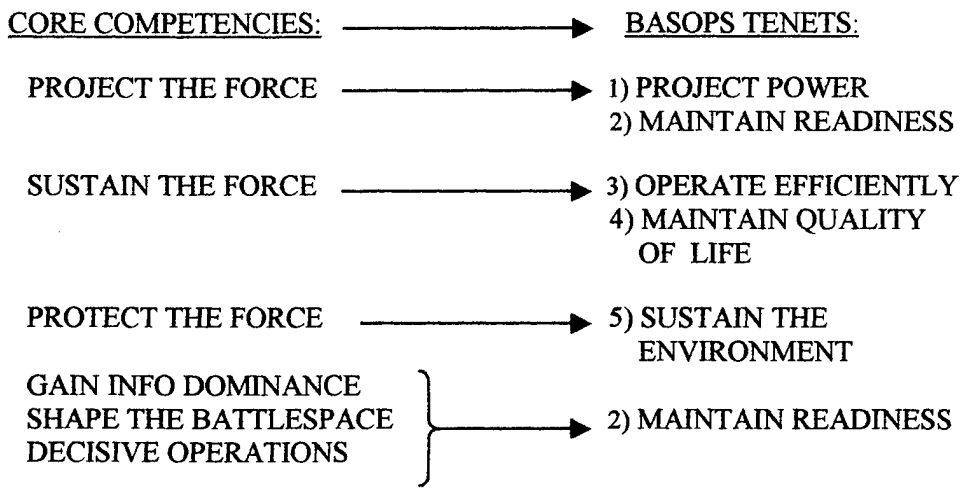
It is important to remember BASOPS funding is 69% of the requirement, leaving a 31% shortfall. Imposition of A-76 combined with the 31% shortfall in funding will certainly

have an effect on quality of life, which in turn affects readiness. It is clear the senior leadership of the Army believes quality of life and cost reductions can co-exist despite continued deep cuts in BASOPS funding. The method of choice for making up for cuts and shortfalls is A-76 and cost efficiency gained through ABC. However, these programs only enhance a tendency to seek short-term cost savings. Like a driver using the rear view mirror to drive forwards, Army use of A-76 will have disastrous effects on future Army readiness.

Installation Vision 2010 states: "Fewer resources, expanded missions, unpredictable change, and evolving technologies now require the Army to assess how installations function. Installations must define and reengineer those processes that are the core competencies of the garrison... The most efficient provider should accomplish activities. Those activities not directly linked to Army core competencies should be turned over to private enterprises or non-Federal governmental agencies."[25] The core competencies expressed in the five tenets of Installation Vision 2010 seem firm. However, garrisons may turn over any functions not *directly* linked to Army core competencies to private enterprise or non-government agencies. Figure 1 compares the Army core competencies from *Army Vision 2010* to the five BASOPS tenets of *Installation Vision 2010*:

Figure 1

Army Core Competencies Compared to BASOPS Tenets



In comparing BASOPS tenets and Army core competencies, the first four tenets support deployment and sustainment. The fifth tenet might apply to protecting the force. Information dominance, battlespace shaping and decisive operations are all products of training taking place on installations. There are few BASOPS activities not linked to Army core competencies. Many job functions considered for A-76 conversions contribute *directly* to Army core competencies (see Figure 2, page 18).

Army core competencies are secondary to cost savings. In the Army's FY 01 posture statement, Army Installation Vision 2010, and A-76, the Army goal is to economize and then modernize. Simultaneous increases in efficiency and cost savings for modernization are unreasonable without assuming risk. The risk will be in future readiness. Maintaining readiness, quality of life for soldiers, and saving money is an increasingly difficult task. Accomplishing this task requires BASOPS managers to accomplish three sub-tasks—cut costs, support the five tenets of BASOPS, plan to

conduct future missions. A-76 and improperly planned ABC is "remote control" management focused only the task of cutting costs.

It seems impossible to sustain readiness at 31% below funding level with only 75% of current manpower requirements while realizing $400 million in savings before FY 2003. These demands will cost the Army more in future readiness dollars beyond FY 2003 than it saves before FY 2003.

LINEAR AND NON-LINEAR FINANCIAL MANAGEMENT

> Our scientific tradition encourages us to think in linear, cause-and-effect patterns.[26]
>
> --Richard A. Leucke, *Scuttle Your Ships Before Advancing*

Business Author Richard Leucke asserts that poor financial decisions come from *linear causality.* He defines linear causality in terms of making decisions based one data point leading to a single conclusion. Remote control accounting relates cost data to single accounting points, such as cost savings. Leucke built a model to illustrate his theory:

Figure 2

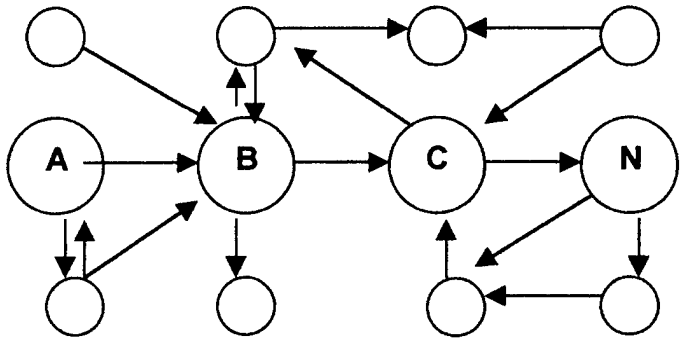
Linear Causal Relationship

Luecke's model represents a change in A, resulting in decision B which causes decision C, finally ending in outcome N. However, he maintains few outcomes or relationships are truly linear.

Leucke postulates most business outcomes are *non-linear.* Non-linear outcomes have multiple inputs and continuous outcomes. A non-linear relationship looks like this:

Figure 3

Non-Linear Causal Relationship



Tactical commanders faced with immediate life and death combat decisions must make rapid assessments and decisions. Tactical commanders often *must* make decisions based on one piece of information in a *linear* process. In tactical decisions, there is little time to gather data. Some elements of the decision management process may remain hidden. On the other hand, BASOPS commanders face few life and death situations requiring immediate decisions. In BASOPS, there is normally time for research to identify as many *non-linear* data points as possible to determine long term impact:

> The reality that planners and strategist must deal with more likely resembles what we see in...this case, dozens of chaotic forces impinge upon events in ways that are unequal, difficult to measure, and often unseen. This representation of unfolding events does not lend itself to the kind of planning and analysis that most of us can handle. In this reactor of colliding influences, outcomes are less certain and result from interactions we have little ability to understand and even less to predict.[27]

Imposition of $400 million in savings by 2003 requires BASOPS commanders to make linear decisions using one data point—cost savings. Linear thinking in BASOPS is as dangerous as linear thinking is to tactical decisions. BASOPS decisions require careful planning before implementation. BASOPS decisions are long term and difficult to reverse. As BASOPS commanders use A76 to make up for the 31% shortfall in funding, they must consider the hidden data points.

In the early 1990's, the DoD emphasis was on customer satisfaction and quality. Dr. W. Edwards Deming's Total Quality Management (TQM) methods of increasing productivity through customer satisfaction were emphasized.[28] Today, Deming style quality control methods have been replaced by Activity Based Cost accounting methods. "Most Efficient Organization" (MEO) competition in ABC uses organizational costs in measuring efficiency rather than Deming's productivity output. In MEO, government services compete against commercial services to determine which provides services at the cheaper cost. If a commercial firm is more cost efficient in an A-76 study, the firm automatically wins the bid. The government ceases operation and turns the function over to the contractor.

Where the MEO saves cost, there is still an issue of whether the government or the contractor is more efficient over time. Government BASOPS functions are operating at only 69% of financial requirements, or minimum cost levels. If a contractor can

operate at the same cost level and maintain profitability, the contract is indeed a bargain. However, there is little motivation for contractors to operate at profit loss or even "break even" levels. If the contractor decides not to renew the contract at the expiration point, the entire government function is at risk.

In the MEO process, the government workforce disbands, and government equipment is liquidated to reduce overhead. If the contractor is unable to perform the tasks in the contract, who performs the work formerly done by the contractor? The only answer is to increase the value of the contract to attract other contractors, or hire the government workforce back. Either option incurs increased cost. Imposition of OMB A-76 fails to consider these issues. The A-76 method does not consider efficiency over time. Decreasing BASOPS overhead by contracting labor is like withholding food from a starving man hoping he becomes accustomed to starving.

COMPETITIVE OUTSOURCING

The Army actively pursues A-76 competitive outsourcing in several MACOMS and installations throughout CONUS. Instituting A-76 overseas is problematic and *optional* because the cost for contract labor imported from the U.S. is prohibitive. However, several overseas commands have pursued outsourcing as a means to manage labor or reduce shortfalls in funding and service. U.S. Army Europe and Seventh Army use outsourcing in engineering and logistics operations. Short term contracting in Bosnia and Kosovo using corporations like Brown and Root provides supplemental BASOPS support to forward locations. Avoiding diversion of troop labor to support services is the primary motivation in contingency contracting. Forward BASOPS support is limited in

nature, and supplements only the deployed force. However, It does not influence long term readiness and support functions. Saving costs is typically not a concern, and the profit to contracting companies is large in comparison to their investment.

The Fort Belvoir, VA Directorate of Engineering and Housing (DEH) uses a contractor housing and repair service. The Ft. Belvoir contract operation is efficient and releases the BASOPS management from overhead costs in motor pools, supply management, and records keeping. However, if the contractor fails to renew the contract the government must increase the value of the contract to attract a new bidder or re-establish the original government operated program at additional cost. This situation creates a significant problem for the future readiness and fiscal efficiency of Fort Belvoir. BASOPS management must carefully study the possible impact of future problems before applying A-76 cost savings measures.

In addition to Ft. Belvoir, 43 separate CONUS based installations are considering ninety-six installation job functions for A-76 study and conversion. Installations throughout FORSCOM, TRADOC, MEDCOM, USACE, USMA, MDW, and AMC are under consideration. The total FY 99 target for conversion is 11,671 *military*, and Department of the Army (DAC), and Non-appropriated Fund (NAF) civilian job positions.[29] Figure 3 illustrates the variety and number of mission functions earmarked for conversion to contracts:

Figure 4

Fiscal Year 99 BASOPS Job Categories

Function Categories Studied	Total Considered Conversion
BASOPS (general category)*	2803
DOIM	1793
Mil. Per. Services/AG/DPCA	1357
Dir. Community Activities/Family Support	1310
Unit Maintenance	866
G3/DPTM/DTM/Training Support	818
Directorate of Logistics	617
Public Works/DEH	531
Readiness Center	432
PW/DOIM (combined category)*	282
USANETA	231
Custodial Services	132
ANG/AR Training BASOPS*	124
Installation Aviation	92
Resource Management (RM)	92
Engineer & Logistics*	43
DHC	41
Provost Marshal	35
Ambulance Services	25
DMATS	28
Ammunition Demilitarization	19
TOTAL positions considered for A-76 elimination/conversion:	11,671

Source: Compiled from the HQDA Assistant Chief of Staff for Installation Management FY 99 A-76 studies Announced to Congress[30]

The 11,671 positions are not the actual number of positions outsourced for FY 99. However, they represent ¼ of all military and civilian BASOPS jobs. Converting positions provides simple cost savings but do not account for long term effects. The preponderance of BASOPS conversions violate Installation Vision 2010's intent to operate efficiently: "Those activities not directly linked to Army core competencies

should be turned over to private enterprise or non-governmental agencies."[31] These functions provide direct support to Army sustainment and force deployment core functions. The submission of the conversion lists is ultimately the BASOPS commander's responsibility. The contrast between the aversion to BASOPS outsourcing in 1994 and divestiture of ¼ of BASOPS labor in 1999 is striking. The willingness to study positions supporting core competencies is proportional to the pressure for cost savings.

Of note are 1,793 DOIM positions considered. The advent of automation management techniques in the 1980's served as a catalyst for ABC accounting management. This revolution enables commercial industry to track multiple linear data points and cost drivers to assess efficiency and cost savings. In an ironic twist, contractors may be processing future studies of government contracting when DOIM and Resource Management personnel are replaced.

CHAPTER 3

COMPARING BUSINESS PRACTICES

The tenets of Installation Vision 2010 focus BASOPS on accomplishing missions supporting the Army's core competencies. The goal is to implement the best business practices; eliminate excess; maximize use of facilities; provide quality living and working environments; and maintaining stewardship of resources.[32] These goals differ from civilian industry goals.

Civilian industry is never called on to maintain the readiness of 485,000 soldiers. The immediate deployment of several thousand employees to a distant location on a moment's notice is not a requirement for most businesses. Many civilian organizations maintain quality of life programs and services for their employees, but few run gyms, shopping centers, grocery stores, medical facilities or child care programs for the exclusive use of employees. Few operate housing facilities, firing ranges, or vast training areas. Civilian Industry locates where services can be provided by the local community. On the other hand, Army installations may be located miles from a city that can provide services at costs soldiers can afford.

In contrast, both Army BASOPS and civil business need to operate efficiently. In his forward to Installation Vision 2010, the Assistant Chief of Staff for Installation Management (ACSIM) summed his views:

> We have begun implementing better business practices, which allow us to rely on the private sector where it makes sense. We have disposed of a substantial amount of excess space. We have also begun a significant evaluation of competitive sourcing opportunities. We must continue to exploit these and other opportunities to improve the efficiency of our installation operations.[33]

The search for cost savings is not exclusively an Army issue. How does commercial industry view savings and efficiency?

Commercial industry has wide experience in cost savings. Although few commercial ventures equal the sheer size and diversity of Army BASOPS, many commercial ventures conduct similar kinds of functions, or are relatively the same size as individual Army installations. A counter-argument might be that industry exists for profit, and is irrelevant in comparison to the non-profit Army. However, closer examination reveals that profit is secondary behind longevity and survivability to most commercial enterprises. Among the eighteen largest, most successful companies in the country "...maximizing shareholder wealth" or "profit maximization" has not been the dominant driving force or primary objective through the history of visionary companies."[34] Each of the 18 company's value core ideology as a standard for continued operations: "A visionary company almost religiously preserves it's core ideology---changing it seldom, if ever."[35] For most, the standard is "customer service at any cost."

Successful commercial firms build their companies on principles similar to the Army's Installation Vision. A common thread is a corporate philosophy inspiring the workforce to attain difficult goals.

> History's great leaders have rallied people with the power of their value-creating visions. Ghandi led 450 million Indians to sacrifice for the vision of independence. Martin Luther King, Jr., persuaded 20 million black Americans to sacrifice for his vision of equality. President John F. Kennedy convinced 210 million Americans to sacrifice to land a man on the moon in the decade of the 1970's. In this decade Lee Iacocca of the Chrysler corporation convinced six hundred congressional leaders and two hundred thousand workers to sacrifice in order to save Chrysler...People need to see using the vision as a way to accomplish some greater good.[36]

Core philosophies are based on long term vision, not short term cost savings

Core ideologies and vision are the key to improving results and for a greater *future* good. The future good has to be good for both the company and the individual. Well-established companies incorporate this strategy above that of cost savings or "maximizing profit" to stay viable and relevant in the *long term.* Cuts in labor solely to provide funds for another company department have not always been successful. "Cut people, cut management layers, close marginal plants, close low producing offices, cut "nice but not essential" services. All these and more have been used to gain efficiency. But these are short-term Band-Aids. Anyone can bump the bottom line by reducing costs. The secret to long-term success is improving long term efficiency—and short term bloodletting only weakens the organization." [37]

An essential strategy of A-76 is to increase efficiency by making a detailed examination of an organization and eliminating the parts that are not productive. Unfortunately, A-76 and Activity Based Costing techniques rely heavily on "rear-view mirror" cost accounting methods. In the civilian sector, A-76 strategies are both top down and remote control methods. "Combined with inappropriate use of cost accounting information to plan marketing strategies, this use of accounting information to control operating processes constitutes what I refer to as "relevance lost". American business has used accounting information to direct operating processes "by remote control" only since the 1950s—a relatively short time. Nevertheless, the consequences of that practice have been so debilitating that it is not an exaggeration to describe the period from the 1950s to the 1980s as a Dark Age of American business history." [38] Yet, the U.S. Army embraces

A-76 top-down, remote control accounting developed in the "Dark Ages" of American business history.

As mentioned earlier, ABC pits known government cost efficiency estimates against contractor estimates in a head-to-head cost showdown. The ABC method allows the government to develop bottom up cost accounting estimates, with the non-linear information available to determine which functions to keep or eliminate. This evaluation produces the criteria for a "most efficient organization" (MOE). The MOE is the model for developing the contract bid. If no contract bids are forthcoming, or if the bids are higher than the government cost estimate, the government keeps the function. The ABC process promotes the cost efficiency operations based on cost savings, not future service or customer satisfaction. "...long term successful companies stand for more than just profit and market share. They also stand for people—people who contribute net value to society. In 1915, Henry Ford put it well: "Wealth, like happiness, is never attained when sought after directly. It is always a by-product of providing a useful service."[39] Bottom line cost efficiency eliminates service as a product supporting readiness. Contractors provide services for relatively short periods. BASOPS functions are long term. Working for profit, short term contractors seem mercenary, and subject to budget fluctuations or vicarious accounting methods putting their services in periodic jeopardy[40].

Mercenary systems are contracts that eliminate the layers of management overhead—the overseers of the workforce charged with ensuring the job is done rather than actually doing the job. This is a way to reduce costs, but in eliminating overhead, industry found that new problems are introduced: "Changes of leadership cannot resolve the management problem that prevents countless American businesses from achieving

competitiveness and long term profitability. Sometimes such changes can wreak chaos and turmoil that drive a company's performance even lower. At best, turnover of top personnel can intensify a company's focus on profit improvement and produce short-term gains in the bottom line. But turnover does nothing to transform the fundamental management thinking adhered to by virtually every businessperson in our society. Until that thinking changes, there is little reason to hope for long-term improvement in competitiveness and profitability merely by changing personnel at the top."[41]

Long term cost efficiency is the single recurring theme in American industry. Longevity among established businesses is a shared goal. The goal is articulated in the *vision.* Vision must be based on some tangible, measurable benefit to society. In American business, the vision benefits *service.* Army BASOPS and commercial industry are similar in this sense. Providing a home and deployment base for current and future soldiers and their families is the vision. The forced use of outmoded accounting methods to save in BASOPS is out of place with the vision.

The lack of an immediate monolithic threat and sustained peacekeeping operations force the Army to economize. BASOPS is the "economy of force" choice to pay for under funding the Army. How much the Army saves in its financial economy of force operations should not be left up to "remote control" accounting practices. In practicing cost savings accounting methods, Army leadership must carefully forecast the long range impact on BASOPS the same way that commercial business does.

BASOPS follows non-linear thinking—everything affects everything else. Changes in work hours in an organization may affect work hours elsewhere. For example, if military organization "X" decides PT will begin at 0500 instead of 0530, the

child development center (CDC) must open it's doors ½ hour early to accommodate the single and dual parent families with children. This requires the BASOPS commander to modify work hours for child development workers. The sensitive legal conditions at the CDC requires emergency work order personnel in the Directorate of Engineering and Housing to be available ½ hour earlier as well, so they can respond to any problem in the CDC. Since it is dark at 0530 most mornings, the lighting will be on longer at the CDC, so the BASOPS power contract will also cost more. Comparatively minor changes in operating policies in one area might have a long-term impact elsewhere. This can cause an increase in the cost of operations. If an A-76 study of an organization does not account for these simple changes or modifications, unit "X" may be severely restricted in it's flexibility to accomplish PT at 0500. Similarly, BASOPS must figure out how to pay for accommodating unit "X's" needs. The alternative is to recruit childless soldiers. However, this is an argument for another paper. For now, BASOPS must provide the *service*, regardless of accounting principles.

One of the most significant problems faced by BASOPS commanders is how to maintain A-76 contracts and plan operational budgets simultaneously. At Ft. Belvoir, the BASOPS DEH eliminated a large portion of government overhead by contracting housing management and maintenance to DynCorp Corporation. DynCorp agreed to assume all maintenance of required equipment and replaced the government vehicle fleet with a contractor owned fleet. This saved BASOPS dollars for the short term by eliminating the need for an Army owned and operated DEH motor pool. However, the contractor also admits the profit margin for DynCorp is small.[42] At the conclusion of their contract, DynCorp may not renew the contract at current value. An increase in

funding, vice cost savings is necessary to sustain the DEH housing contract. Advocates of OMB A-76 and ABC fail to consider this long-term aspect of implementation.

In the short term, A-76 measures provide cost reduction and cost efficiencies and certainly meet the requirements for DoD participation in re-inventing government. However, erosion of the Army's BASOPS ability to provide basic services independent of contractors is a significant outcome of A-76. If BASOPS goals are impaired, it may have significant impact on the rest of the Army:

> Military technology requires high levels of technical training. This has various implications for military personnel, including greater emphasis on retention of trained and experienced personnel. The longer people are retained in the military, the greater proportion of married service members. Retention of these older, experienced soldiers requires that they be satisfied with Army Family Life.[43]

A decline in BASOPS services may have long term unforeseen affects on recruiting and retention of skilled soldiers. The failure of "OPERATION GYROSCOPE" illustrates the impact of services (or lack of services) on soldier retention:

> Operation GYROSCOPE was initiated in 1954 and developed in an attempt to alleviate the problems of family life and thus reduce the steady loss of career personnel. Units in the United States exchanged places with others of the same size in Japan... Gyroscope was discontinued by the Army in 1960 because it was very expensive and had not significantly affected career retention rates. The success of the policy had been contingent upon the availability of overseas dependent housing and variable preferences for locations upon return to the United States. When these could not be fulfilled, interest in the program and retention rates declined... Nevertheless, the experience with GYROSCOPE fostered the development of other agencies concerned with the military family. Military manpower policies and congressional attitudes toward the issue became crystallized. Increased attention was paid to such programs as post housing and medical care for dependents.[44]

If the Army expects to reverse current trends in retention, then it must stop diverting 31% of BASOPS resources to modernization while telling Congress the Army is conserving using A-76.

In his book "Leading Change" John Kotter sums up implementation of the large transformation processes: "Employees in large, older firms often have difficulty getting a transformation process started because of the lack of leadership coupled with arrogance, insularity, and bureaucracy. In those organizations, where a change program is likely to be overmanaged and underled, there is a lot more pushing than pulling. Someone puts together a plan, hands it to people and then tries to hold them accountable. Or someone makes a decision and demands that others accept it. The problem with this approach is that it is enormously difficult to enact by sheer force the big changes often needed to make organizations perform better. Transformation requires sacrifice, dedication, and creativity, none of which usually comes with coercion."[45] A-76 coerces the Army budget system to achieve savings despite the effects on the Army's future needs.

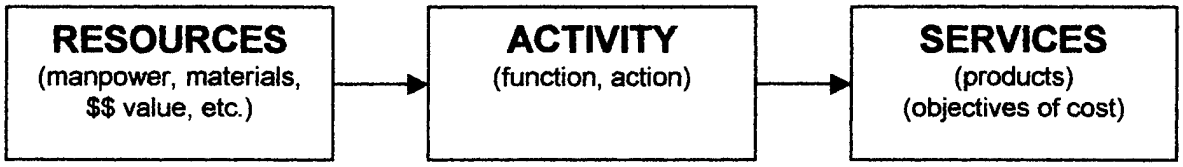
THE "COST WAR" CAMPAIGN PLAN

While A-76 measures are short-term "remote control" measures, ABC is a method of realizing organizational efficiency. ABC involves the military and civilian workforce in the process of making cost savings *decisions*. ABC empowers the workforce in the same sense as the earlier Deming TQM initiatives. However, TQM favors productivity over cost savings. While pure top down accounting drives A-76, ABC only empowers the workforce to seek cost-savings. In an Office of the Secretary of Defense (OSD) memo of 9 July 1999, "The goal of cost management is to deliver continually [sic] better

quality products/services to customers while continually improving cost." [46] This goal resembles industry's views on long term service and profitability. The Army's ABC campaign plan was implemented on 7 October 1999. The campaign plan's intent is to establish programs in BASOPS organizations to "know the true cost of everything they do." Not knowing these costs makes everything appear free."[47] The assumption is that if a resource "appears free", it is consumed rapidly. The ABC program assigns costs to resources, activities consuming resources, and labor performed by an activity. Figure 4 depicts a typical Army ABC arrangement.

Figure 5

Activity Based Costing Model

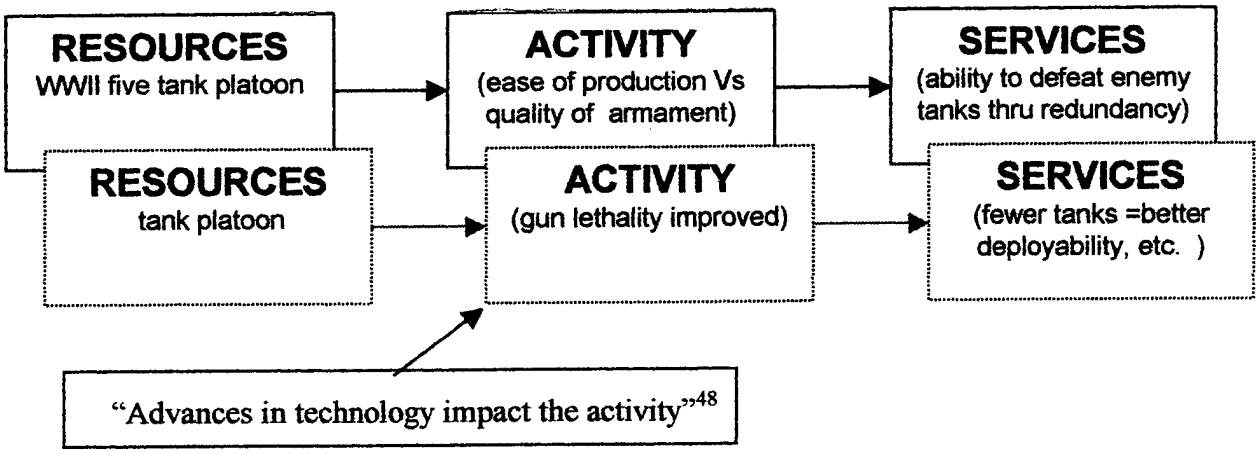


ABC costing assigns costs to services based on the number, type of activities required to produce a final product, and the quality of the service rendered. Activities are subject to outside influences and stimulus modifying the cost drivers. These stimuli affect the quality and quantity of service. For example, the production of WW II Sherman tanks is an activity that results in service and the consumption of resources. Although the Sherman's armor protection and firepower were no match for the German tanks of the time, the Sherman was easily produced and rapidly replaced. Therefore, a platoon of five Shermans was able to overwhelm and destroy superior, but fewer German tanks. Destruction of the enemy tanks was the service provided by Sherman tanks. Taking the process a step further, as gun and armor technology improved (manipulating

better technology into the activity), the size of a tank platoon could be reduced from five to four tanks. This is illustrated in Figure 5.

Figure 6

ABC Applied to a "Tactical Model"



In the example, the activity of increasing gun lethality and armor protection means fewer tanks are necessary to defeat enemy tanks. In turn, fewer resources are consumed and service improves in the *long term.* Another good example is the historic effect of automation technology on information processing. The key to ABC is to modifying the activity to manipulate the cost of the product without sacrificing quality. Like the analogy of the tank platoon, the cost value is the input of resources, labor, or time in producing a service.

Unfortunately, there is no simple solution to the fiscal constraints of BASOPS. Because BASOPS is a service function, rather than an economic function, technology cannot easily eliminate the BASOPS cost vs. service dilemma. Interaction between resources, activities, and services cannot be reduced to simple mathematical accounting.

Too many outside, non-linear influences affect the "activity" portion of the ABC model. Nevertheless, ABC is the only method available for assessing the cost of services. In the absence of forthcoming funding, vision and intent are necessary to modify the activity models for BASOPS. Vision and intent require detailed planning and forecasting.

In the October 1999 Department of the Army "Cost War Campaign" briefing to the VCofS Army, Dr. Dale Geiger presented cost *planning* as four-step process:

A Four Step Process for Cost Planning

- **Step 1: Command Issues Planning Factors**
- **Step 2: Subordinate Makes Bottom's Up Plan as a Request**
- **Step 3: Command Makes Top Down Plan as a Challenge**
- **Step 4: Meeting** [between management and subordinate] **Negotiates Final Plan**

(From "Cost War Campaign" Briefing presented to the VCofS Army by Dr. Dale Geiger, 7 OCT 99)

Once the command and the workforce agree to an ABC plan, cost efficiencies are sought by eliminating overhead from the costs of doing business. Projecting future costs is essential to ensuring the service is provided over the long term. Therefore, an essential factor in ensuring longevity is the ability to predict the future environment. The best place to predict BASOPS future is to look into BASOPS past. An installation must review the present cost of business with the projected cost of long term business decisions and planning in mind. Searching for short term cost savings is counter-productive to the process. For example, high costs of maintaining older infrastructure

might be reduced by eliminating the older infrastructure altogether. The savings might then be re-applied in other BASOPS costs areas. However, A-76 and ABC short term cost savings deprive the Army of re-investment capital necessary to undertake this kind of program without jeopardizing other service areas.

Costs for services such as Morale, Welfare and Recreation (MWR) facilities, and soldier support activities (child development centers, personnel centers, gyms, etc) are more difficult to assess. Overhead costs in labor and hours of operation are the primary cost generators in service providing organizations. Although ABC cost methods can determine the labor costs, customer service is the primary value, and this value can only be weighed against future readiness. Unfortunately, the rush to comply with OMB A-76 interferes with the calculation of the true value of service. Reducing the value of services to dollar value is a linear approach and cannot adequately predict non-linear effects.

In the 1970's, industry recognized traditional "top down" accounting failed to identify true cost drivers. Costs calculated by figuring raw materials and labor alone do not reflect the true value of a product. This changed in the 1980's when industry became aware that traditional cost accounting could not account for "un-measurable" factors such as customer satisfaction. The advent of the computer chip allowed the tracking of these previously "un-measurable" factors by compiling data derived from customer satisfaction indices. Today, computers track the life cycle of a product, manufacturing, distribution and handling costs, and other costs associated with a product *or* service.[49] Customer service tracking is also possible. Therefore, ABC cost analysis is a practical way to judge the flow of business activities in BASOPS. Unfortunately, ABC is a cost cutting tool, not

a productivity tool. Using ABC as a measure to provide future benefits requires a shift in thinking from cost savings to cost efficiency.

Industry realized the initial utility of ABC in the 1980's and 90's. Using ABC as a cost savings method attracted companies like General Electric, John Deere[50], and now the U.S. Army. Although attractive, ABC costing has problems:

> The belief that activity based cost management tools will improve business competitiveness is a dangerous delusion! No accounting information, not even activity based cost management information, can help companies achieve competitive excellence. Still, that has not kept armies of software designers, and companies from trying to make gold out of dross. Americans, especially, are big believers in the power of innovative breakthroughs and "quick fixes". The wide spread belief that activity based cost management offers a magic "solution" to America's flagging competitiveness is no exception.[51]

The advent of accounting methods including ABC, in business *planning* and decision making is important to understand. Until the 1980's, "bottom line profit" was the ultimate measure of success for business. Bottom line success was calculated using traditional "top down" or "bottom up" methods to guide *decision* making. Business *planning* was difficult to do because of the "remote control" effect of using cost accounting to drive management decisions.

"Non-accounting" decision making uses satisfaction and value to make business management decisions. From the 1800's through the 1950,s means other than accounting were used to make business marketing, sourcing and labor decisions. Beginning in the 1950s, marketing and resourcing decisions were dominated by bottom line accounting until the advent of TQM in the 1980's. The 1980's also saw the advent of accounting in planning and decision making in business operations. Modified accounting methods like ABC did not play major roles in planning and sourcing *decisions* in industry until the

1990's. The chart below, extracted from *Relevance Regained* illustrates trends in mixing accounting and non-accounting means to influence business decisions.

Figure 7

Accounting trends since 1850:

Primary Sources of Management Information

	Industrial Era: 1850-1890	Dark Age of Relevance Lost: 1950s-1980s	Global Era 1990's on
To plan extent and financing of company	Accounting	Accounting	Accounting
Marketing and sourcing decisions	Nonaccounting	Accounting	Accounting (modified by ABC)
To control individuals	Nonaccounting	Accounting	Nonaccounting (customer and process)

(source: Relevance Regained p. 19)

Although ABC is a very good method for calculating the current cost of doing business in an organization, ABC has its roots in accounting. ABC alone does not solve the dilemma of *planning* future BASOPS financing. Essential to BASOPS cost analysis is how ABC data applies to the *planning* process. For instance, ABC "... does not focus ... attention on changing how work is done, nor does it explicitly and systematically link activity with satisfaction of customer wants. It simply links activity with activity drivers and says: reduce the amount of activity (hence cost) for a given amount of revenue by

reducing or economizing on activity drivers.[52]" Cost analysis using ABC methods fails to consider customer satisfaction, or methods influencing productivity of the workforce.

Industry discovered the failure of these accounting techniques in the 1980's, and applied combinations of ABC and total quality management (TQM) to reduce costs *and* increase productivity. "Instead of activity analysis [ABC], companies seeking the pathway to competitiveness need to map and improve customer focused processes. Indeed, there is almost no similarity between the process analysis [TQM] and the activity analysis [ABC] discussed by cost management authorities."[53] The Army uses ABC as a weapon in the cost war, but ABC cannot predict future costs.

Planning for the future is the essential element missing from A-76 and ABC cost savings methods. Because BASOPS is considered an "economy of force" mission in the "cost war," [54] remote control top- down and bottom-up methods have found their way into BASOPS cost cutting. These methods must be recognized as straight accounting methods, not planning tools. The A-76 measure is designed to force the government to outsource, which is neither a long-term economizing method nor a means of enhancing readiness. Army adoption of ABC is a reaction to forced cost savings. By realizing immediate short-term efficiencies, ABC staves off the full impact of cost cutting, but mortgages the BASOPS future. The message Army leadership is sending is clear—economize or else. Unfortunately, this message has an unwanted impact on retention, recruitment, and quality of life programs.

CHAPTER 4

CONCLUSION

> "The Army's readiness is inextricably linked to the well being of it's people. Our success depends on the whole team – our soldiers, civilians, veterans, and their family members – all of whom serve the Nation. We make the most significant investment in the Nation's security by properly training, equipping, and supporting them. We strive to provide adequate housing, schools, medical care and dental care with quality and access comparable to society at large. Strategic responsiveness requires that our support structures provide soldiers and families the resources to be self-reliant both when the force is deployed and when it is at home station. When we deploy, our soldiers should know that their families are safe, housed and have access to medical care, community services, and educational opportunities."[55]

Long-term competitiveness is the vision distinguishing companies like Boeing, Merck Pharmaceuticals, Marriott, Hewlett-Packard, Motorola, and Disney. [56] To remain relevant during periods of fiscal restraint, the top eighteen companies in the U.S. rely on the proven methods of customer satisfaction and long term planning even if it means losing money for the short term. If the U.S. Army wants to use business techniques to improve efficiency and maintain relevance, it should look to *planning* for its biggest customer, the soldier, the ultimate service provider. As in business planning, taking care of the "customers" should be the primary goal of Army BASOPS, not cost savings. Using outdated "top down" accounting methods discarded by the business industry is an error in management.

The lineage of OMB A-76 began in the 1950's when American businesses used "top-down" accounting as the primary indicator of bottom line profitability. Since the 1950's, industry understands profitability is not the true "bottom line". If the true

profitability of the Army is vested in the long-term core competencies and five tenets of BASOPS, longevity and long range financial planning are needed.

Industry frequently trades profitability for continuity and long range planning methods: "Yes they seek profits, but they are equally guided by a core ideology—core values and sense of purpose beyond just making money. Yet paradoxically, the visionary companies make more money than the more purely profit companies,"[57]. If "profitability" is the business equivalent to "cost savings" for the Army, BASOPS has turned from being a visionary "company" into a purely profit based organization.

THE COST OF A DIVISION IS NOT THE "BOTTOM LINE"

In the Army campaign plan presented to LTG Keene in October 1999, Dr. Dale Geiger discussed several concepts in "winning the cost war". Two concepts stand out as problems in short-range savings vs. long-range planning. First, reducing BASOPS costs is an essential part of the Army ABC strategy. Second, failure to obtain the cost savings will cost the Army the dollar equivalent of a division over the next five years.[58] These two concepts exemplify the current debate over A-76. The Army must choose between funding divisions in five years or supporting readiness for the next twenty or thirty years.

Asking the Army to make choices between cost savings and future BASOPS readiness is a violation of the "pragmatic idealism" principle of good business[59]. Pragmatic idealism is a choice between saving costs in BASOPS *or* paying for a division. However, the reality is the Army must pay for BASOPS *and* pay for a division. The division equivalent may be needed in five years, but if soldiers leave the Army because their needs are not met, it will be a *hollow* division. The current administration,

Congress, and senior Army leadership have adopted outmoded forms of business accounting in an attempt to save money, but have not grasped the significance of today's business practices. Merck Pharmaceuticals, along with many other corporations have learned this lesson:

> I want to...express the principles which we in our company have endeavored to live up to...Here is how it sums up: We try to remember that medicine is for the patient. We try never to forget that medicine is for the people. It is not for the profits. The profits follow, and if we have remembered that, they have never failed to appear. The better we have remembered it, the larger they have been.[60]

It should not be difficult for the U.S. Army to identify with the pragmatic idealism principles of Merck. The Army is asked daily to accomplish support and readiness missions. Planning for the future will prepare BASOPS to do both missions. However, planning future operations cannot be accomplished while over-emphasizing short term cost savings. The Administration, Congress, and the Army's own leadership must understand retention, recruitment, training, sustainment and deployment all hinge in some fashion on BASOPS, and arbitrary cost cutting damages BASOPS.

It is the duty of the BASOPS commander to insure the Army core competencies and five tenets of Army Installation vision are met while executing cost savings. However, it is questionable if BASOPS commanders can accomplish long range planning for BASOPS while being squeezed financially. When used, the practice of OMB A-76 and ABC methods must account for future contingency planning in every accounting based decision. The question Army leadership must ask when employing costing methods such as ABC is "what must we do to economize for the Army now, and can we live with it five, ten or fifteen years from now." BASOPS decisions made today will

have regrettable long-term impacts if not carefully weighed, regardless of today's immediate fiscal needs.

ENDNOTES

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[3] Office of the Secretary of Defense Memorandum, *Defense-wide Implementation of ABC/M Interim Status Report* (Washington D.C.: 9 July 1999)

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